

PROPOSED RESOLUTION

Resolution W-5201
WD

Agenda ID #17603

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5201
August 15, 2019

RESOLUTION

(RES. W-5201) AGATE BAY WATER COMPANY. ORDER
AUTHORIZING A RATE BASE OFFSET REVENUE
INCREASE, PRODUCING ADDITIONAL ANNUAL
REVENUES OF \$33,805, OR 8.45%, OVER CURRENTLY
APPROVED REVENUES, TO BE PAID BY THE
RATEPAYERS

SUMMARY

By Advice Letter (AL) 41, filed on March 29, 2019, Agate Bay Water Company (ABWC) seeks a rate base offset for \$247,512 in capital improvements to replace two turbine pumps at its filter plant, to replace wiring for two submersible pumps at the lake intake, to replace water mains and hydrants, and to install service meter pits, which ABWC estimates to result in an increase in annual revenues of \$35,500, or 8.875%, over current authorized revenues.

This Resolution finds the \$285,588 in capital improvements recommended by the Water Division (WD) prudent for inclusion into ABWC's rate base. WD recommends a greater rate base offset because additional capital improvements were made after ABWC's original request. The authorized revenue increase recommended by the WD of \$33,805, or 8.45%, will not result in a rate of return greater than the last authorized for ABWC.¹

This Resolution also directs ABWC to file a GRC no later than one year after the effective date of this Resolution.

¹ The Water Division's revenue increase of \$33,805, or 8.45%, is lower than ABWC's \$35,500, or 8.875%, because the utility used outdated tax rates to calculate its revenue requirement increase, whereas the Water Division used the current State Income Tax rate of 8.84% and Federal Income Tax Rate of 21.00%.

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BACKGROUND

ABWC requests authority under General Order (GO) 96-B, Water Industry Rule 7.3.3(8), and Section 454 of the Public Utilities (PU) Code to increase rates by \$35,500, or 8.875%, for a rate base offset for \$247,512 in capital improvements. The purpose of the rate base offset is to recover infrastructure investments, including replacing two turbine pumps at the filter plant, replacing wiring for two submersible pumps at the lake intake, replacing water mains and hydrants, and installing service meter pits.

ABWC is a Class C water utility which serves approximately 584 flat rate customers, 16 customers classified as “additional buildings on the same premises and served from the same service connection”, seven private fire connections and one limited annual flat rate service customer in Agate Bay View and Agate Bay Shore Subdivisions and vicinity, located on the north shore of Lake Tahoe near Carnelian Bay, in Placer County. The median household income in Carnelian Bay is \$74,792, with a poverty rate of 17.6%, according to Data USA. ABWC is owned by Lenore Davis.

ABWC’s last general rate case (GRC) was approved by Resolution (Res.) W-5031, on April 9, 2015, which authorized a rate increase of \$7,157, or 2.00%, and a rate of margin (ROM) of 20.54%. The utility’s present rates became effective on October 1, 2015 with Res. W-5067, which authorized a rate base offset revenue increase of \$17,278, or 4.51%, and provided a rate of return of 11.20%.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer and to the general service list on April 3, 2019. In accordance with GO 96-B, General Rule 4.2 and Water Industry Rule 3.1, on March 29, 2019, ABWC published a legal notice of the requested rate increase in the Sierra Sun, a newspaper of general circulation in the City of Truckee and Tahoe City. Also, in accordance with the same rules in GO 96-B, on April 3, 2019, ABWC served AL 41 on its service list.

No protests were received for ABWC’s AL 41 filing.

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DISCUSSION

Res. W-4850, issued on November 22, 2010, approved the capital improvement project plan and recommended that ABWC be allowed to file two Tier 2 rate base offset advice letters, before its next GRC, as the new plant became used and useful. According to GO 96-B, Water Industry Rule 7.3.3 (8), the scope of the projects and a budget cap must be pre-approved to allow Tier 2 treatment. Res. W-4850 approved the project scope and budget caps as shown in Figure 1.

6. Capital Improvements by Tier 2 Advice Letters

<u>Project Description</u>	<u>Cap</u>
Update instrumentation in treatment plant	\$13,800 total
Replace and Lower on Highway 28 erosion project an old 2" steel pipe with 6"	\$18,800 total
Replace 300-750 feet of new water mains complete with hydrants, valves and meter pits	\$30,000 total
Install 55 meter pits/setters per year	\$44,000 per year

Figure 1: Scope of project and budget caps approved by the Commission in Res. W-4850, Appendix D, Item 6.

Based on the invoices provided by ABWC and the findings of the field investigation, the WD determined that the capital additions are consistent with the scope of work for capital improvements described in Res. W-4850. However, the total costs for these improvements exceed the budget cap set in Res. W-4850, as shown in Figure 1. Therefore, pursuant to GO 96-B, Water Industry Rule 7.3.3 (8), this rate base offset request in AL 41 shall receive Tier 3 treatment.

The Water Division (WD) reviewed the scope of work and invoices for the replacement of turbine pumps at the filter plant, replacement of wiring for two submersible pumps at the lake intake, replacement of water mains and hydrants, and installation of service meter pits at ABWC's water distribution system and found these expenditures to be reasonable.

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During the review, WD staff discovered capital improvement expenditures that had not been accounted for in the utility's initial request of \$247,512. The initial request was modified by adding \$38,076 because ABWC originally requested \$60,000 in capital improvement expenses for 2019 and revised their request to \$98,076. Therefore, the total capital improvement expenditure to be included in the rate base offset is \$285,588. Based on the WD's review of the capital improvement expenditures, Staff finds ABWC's capital improvements in the amount of \$285,588 prudent for inclusion into ABWC's rate base.

The WD calculated an increase of \$33,805, or 8.45%, to ABWC's revenue requirement for the WD's recommended \$285,588 rate base offset amount, based on the utility's previously authorized² revenues, expenses, and rate of return. Then, the WD prepared a Summary of Earnings with the recommended rate base offset, as shown in Appendix A of this Resolution. The WD recommends approval of ABWC's rate base offset with the WD's corrected amount using current tax rates. The WD also calculated the recommended rates from the rate base offset in Appendix B of this Resolution, based on the recommended revenue requirement and adopted rate design authorized by Res. W-5067. ABWC agrees with the recommended rates contained in Appendix B.

WD staff also conducted a field inspection on June 7, 2019 and verified that the capital additions are used and useful.

ABWC is on track to comply with Res. W-4906, issued on February 16, 2012, in which, by PU Code 781, Section (a)(2), the Commission ordered ABWC to install a meter upon each unmetered service connection by January 1, 2025.

As provided in Res. W-5067, issued on October 2, 2015, ABWC is required to submit a GRC for future capital improvements. Accordingly, WD expects that ABWC will file a GRC no later than one year after the effective date of this Resolution to reflect future capital additions and current expenses and rates.

In summary, based on the findings of the field investigation and the WD's review of the documentation provided by the utility in support of the expenditures associated with the construction and installation of turbine pumps, wiring for the submersible pumps, water mains, hydrants, and service meter pits, the WD confirmed that: 1) ABWC's capital improvements are compliant with Commission Res. W-4850, W-4906, and W-5067; 2) the

² Although Standard Practice U-27 would base earnings on the most recent GRC, ABWC's last GRC was in April 2015, over 4 years ago. Therefore, WD determined that the earnings test should reflect more recent information as stated in ABWC's 2017 Annual Report. As shown in Appendix A, use of this information indicates that ABWC will not exceed its authorized rate of return.

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cost recovery requested for the capital improvements meets the earnings test, and with this rate base offset, ABWC will not exceed its authorized ROR (see Appendix A); and 3) the added capital improvements are used and useful.

Affordability of Proposed Rates

ABWC likely has a significant proportion of low-income permanent residents. According to ABWC, only about one fifth of their customers are permanent residents. Carnelian Bay has an individual poverty rate of 17.6%, and about 23% of households have incomes under \$20,000 annually, based on information from Data USA. Furthermore, about 85% of individuals below the poverty threshold are 55 years old or above. Because the transient residents pay the fixed cost of the system as though they were there year-round, they reduce the costs to the permanent customers. As ABWC transitions its customers to metered rate service, permanent residents could experience significantly higher bills if a large enough portion of fixed costs are recovered through quantity rates.

At the recommended rates contained in Appendix B, an average residential flat rate service customer's annual bill for a 3/4-inch meter will increase from \$651.29 to \$702.82, or 7.91%, which is 0.94% of the median household income (MHI) of \$74,792 for Carnelian Bay, where ABWC's service area is located. The Utility Rate Comparison table in Table 1 shows that ABWC's rates are in line with rates in the Placer County area.

Table 1: Comparison of Utility Rates in the Placer County Area.

<u>Utility</u>	<u>Utility Rate Comparison</u>			
	<u>Annual General Metered</u> <u>Service for a 3/4-inch Meter</u> (Assuming 10.0 Ccf/Month)	<u>Annual Flat Rate Service</u> <u>Charge for a 3/4-inch</u> <u>meter</u>	<u>For Each Additional</u> <u>Single-Family</u> <u>Residential Unit</u> <u>Served from the</u> <u>Same Connection</u>	<u>Annual Private Fire</u> <u>Protection Service</u> <u>Charge</u> (Per Inch of Diameter)
Agate Bay Water Company	\$ 648.77	\$ 702.82	\$ 488.29	\$ 175.08
Fulton Water Company*	\$ 658.30	\$ 866.19	\$ 606.33	\$ 185.73

*From AL No. 69

WD notes that no affordability criteria have been developed and adopted in any Commission Decision or legislation, and that the percentage of MHI represented by the increased rates is for informational purposes only. The Commission adheres to cost-of-service regulatory principles in developing rates for its jurisdictional utilities, and the

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WD's recommended rates for ABWC are the minimum required to satisfy the utility's technical, managerial and financial capacity, and operational capability. The discussion regarding affordability is presented to indicate to the Commission the relationship between the proposed rates and local incomes.

SAFETY AND COMPLIANCE

There are no outstanding Commission orders for ABWC requiring system improvements. The utility has been filing annual reports as required. According to the State Water Resources Control Board's Division of Drinking Water, the utility currently meets all applicable water quality standards.

This Resolution provides adequate revenues to the utility so that ABWC can provide safe and reliable water service to its customers.

COMMENTS

This is an uncontested matter in which the Resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. By Advice Letter (AL) 41, filed on March 29, 2019, Agate Bay Water Company (ABWC) requests authority under General Order (GO) 96-B, Water Industry Rule 7.3.3(8), and Section 454 of the Public Utilities Code to increase rates by \$35,500, or 8.875%, for a rate base offset of \$247,512.
2. ABWC's last general rate case (GRC) was authorized by Resolution (Res.) W-5031, on April 9, 2015, which authorized a rate increase of \$7,157, or 2.00%, and a rate of margin (ROM) of 20.54%. The utility's present rates became effective on October 1, 2015 with Res. W-5067, which authorized a rate base offset revenue increase of \$17,278, or 4.51%, and provided a rate of return of 11.20%.
3. In accordance with GO 96-B, General Rule 4.2 and Water Industry Rule 3.1, ABWC published a legal notice of the requested increase in a newspaper of local circulation on March 29, 2019. Also, AL 41 was served in accordance with GO 96-B, General Rule 4.2 and Water Industry Rule 3.1 on April 3, 2019. No protests were received on ABWC's AL 41 filing.

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4. The capital additions are consistent with the scope of work for capital improvements described in Res. W-4850. However, the total costs for these improvements exceed the budget cap set in Res. W-4850. Therefore, pursuant to GO 96-B, Water Industry Rule 7.3.3 (8), this rate base offset request in AL 41 shall receive Tier 3 treatment.
5. The capital improvements are compliant with Res. W-4850, W-4906, and W-5067.
6. The Water Division (WD) reviewed the documentation for the replacement of two turbine pumps at the filter plant, replacement of wiring for two submersible pumps at the lake intake, replacement of water mains and hydrants, and installation of service meter pits. Based on WD's review of the capital improvement expenditures, the WD finds ABWC's \$285,588 for the capital improvements prudent for inclusion into ABWC's rate base.
7. The WD determined that the earnings test should reflect more recent information as stated in ABWC's 2017 Annual Report. The cost recovery requested for the capital improvement meets the earnings test, and with this rate base offset, ABWC will not exceed its authorized rate of return.
8. WD staff conducted a field investigation on June 7, 2019 and verified that the capital additions are used and useful.
9. The WD's recommended increase in rate base of \$285,588 and the resulting annual revenue requirement increase of \$33,805, or 8.45%, are reasonable and should be adopted.
10. The WD's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
11. The WD's recommended rates (Appendix B) are reasonable and should be adopted.
12. ABWC should file a GRC no later than one year after the effective date of this Resolution to reflect future capital additions and current expenses and rates.

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THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Agate Bay Water Company to file a supplemental advice letter with the revised rate schedule attached to this Resolution as Appendix B and concurrently cancel its presently effective Schedule No. 1, General Metered Service, Schedule No. 2A, Annual Flat Rate Service, Schedule No. 2AL, Limited Annual Flat Rate Service, and Schedule No. 4, Private Fire Protection Service. The effective date of the revised rate schedules shall be five days after the date of their filing.
2. As provided in Res. W-5067, ABWC will file a GRC for future capital improvements. The date of the GRC filing shall be no more than one year after the effective date of this Resolution.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 1, 2019; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

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APPENDIX A SUMMARY OF EARNINGS AGATE BAY WATER COMPANY

	<u>Authorized</u>	<u>ABWC</u>	<u>Earnings Test</u>	<u>Division</u>	<u>Earnings Test</u>
<u>Item</u>	<u>Res. W-5067</u>	<u>Rate Base Offset</u>	<u>Proposed Rates</u>	<u>Rate Base Offset</u>	<u>Recommended Rates</u>
Operating Revenue					
460 Unmetered Water Revenue	\$ 397,391	\$ 35,271	\$ 432,662	\$ 30,994	\$ 422,697
462 Fire Protection Revenue	\$ 2,577	\$ 229	\$ 2,806	\$ 2,811	\$ 38,342
470 Metered Water Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
480 Other Water Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 399,968	\$ 35,500	\$ 435,468	\$ 33,805	\$ 461,039
Operating Expenses					
610 Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
615 Power	\$ 19,500	\$ -	\$ 19,500	\$ -	\$ 23,112
618 Other Volume Related Expenses	\$ 8,418	\$ -	\$ 8,418	\$ -	\$ 11,430
630 Employee Labor	\$ 31,000	\$ -	\$ 31,000	\$ -	\$ 71,670
640 Materials	\$ 3,233	\$ -	\$ 3,233	\$ -	\$ 16,861
650 Contract Work	\$ 27,194	\$ -	\$ 27,194	\$ -	\$ 11,843
660 Transportation Expenses	\$ 12,035	\$ -	\$ 12,035	\$ -	\$ 8,001
664 Other Plant Maintenance	\$ 13,029	\$ -	\$ 13,029	\$ -	\$ 9,134
670 Office Salaries	\$ 11,750	\$ -	\$ 11,750	\$ -	\$ 12,000
671 Management Salaries	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ 22,034
674 Employee Pensions & Benefits	\$ 7,619	\$ -	\$ 7,619	\$ -	\$ 4,812
676 Uncollectibles Expense	\$ -	\$ -	\$ -	\$ -	\$ -
678 Office Services & Rentals	\$ 30,376	\$ -	\$ 30,376	\$ -	\$ 1,500
681 Office Supplies & Expenses	\$ 3,130	\$ -	\$ 3,130	\$ -	\$ 15,309
682 Professional Services	\$ 7,363	\$ -	\$ 7,363	\$ -	\$ 15,385
684 Insurance	\$ 11,750	\$ -	\$ 11,750	\$ -	\$ 15,095
688 Regulatory Commission Expense	\$ 10,316	\$ -	\$ 10,316	\$ -	\$ 1,523
689 General Expenses	\$ 2,048	\$ -	\$ 2,048	\$ -	\$ 5,155
Subtotal	\$ 218,761	\$ -	\$ 218,761	\$ -	\$ 244,864
403 Depreciation	\$ 37,801	\$ 6,683	\$ 44,484	\$ 7,711	\$ 48,533
408 Taxes Other Than Income	\$ 12,788	\$ 1,271	\$ 14,059	\$ 3,198	\$ 9,219
409 State Income Taxes	\$ -	\$ 1,778	\$ 13,982	\$ 2,015	\$ 14,005
410 Federal Income Taxes	\$ 41,234	\$ 4,865	\$ 30,278	\$ 4,787	\$ 30,328
Subtotal	\$ 91,823	\$ 14,597	\$ 102,803	\$ 17,711	\$ 102,084
Total Expenses	\$ 310,584	\$ 14,597	\$ 321,564	\$ 17,711	\$ 346,948
Net Revenue	\$ 89,384	\$ 20,903	\$ 113,904	\$ 16,094	\$ 114,090
Rate Base					
Average Plant	\$ 1,411,311	\$ 116,604	\$ 1,527,915	\$ 142,794	\$ 1,745,181
Ave. Accumulated Depreciation	\$ 619,172	\$ 3,123	\$ 622,295	\$ 3,855	\$ 663,384
Net Plant	\$ 792,139	\$ 113,481	\$ 905,620	\$ 138,939	\$ 1,081,797
Less Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Aid of Construction	\$ -	\$ -	\$ -	\$ -	\$ -
Plus Construction Work in Progress	\$ -	\$ -	\$ -	\$ -	\$ -
Materials and Supplies	\$ 5,926	\$ 5,926	\$ 11,852	\$ 5,926	\$ 11,852
Rate Base:	\$ 798,065	\$ 119,407	\$ 917,472	\$ 144,865	\$ 1,093,649
Rate of Return	11.20%		12.42%		10.43%

END OF APPENDIX A

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APPENDIX B

AGATE BAY WATER COMPANY Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Agate Bay and the vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

<u>Quantity Rates:</u>	<u>Per Meter</u> <u>Per Month</u>
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All water, per 100 cu. ft.	\$ 1.93 (I)
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Service Charge:

For ¾-inch meter	\$ 34.75 (I)
For 1-inch meter	\$ 57.94 (I)
For 1-1/2-inch meter	\$ 115.85 (I)
For 2-inch meter	\$ 185.37 (I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered services and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to reimbursement as set forth in Schedule No. UF.

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Schedule No. 2A ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished on an annual basis.

TERRITORY

Agate Bay and the vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

For a single-family residential unit, including premises,
For residential use, payable in advance on or before
January 1 of each year.

Served through a 3/4-inch service connection	\$ 702.82	(I)
For 1-inch service connection	\$ 813.87	(I)
For 1-1/4-inch service connection	\$ 859.15	(I)
For 1-1/2-inch service connection	\$ 904.07	(I)
For 2-inch service connection	\$ 1000.50	(I)

For additional buildings on the same premises and served from the same service connection.	\$ 488.29	(I)
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SPECIAL CONDITIONS

For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum metered charge for the same period shall be made on or about that same day.

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Schedule No. 4 PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to water service furnished for private fire systems and to private fire hydrants.

TERRITORY

Agate Bay and the vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

	<u>Per Month</u>	
For each inch of diameter of service connection	\$ 14.59	(I)

SPECIAL CONDITIONS

1. The facilities for service connection to a privately-owned fire protection system will be installed by the utility or under the utility's direction and the cost paid by the applicant. Such cost shall not be subject to refund. The facilities paid for will be the sole property of the applicant.
2. The minimum diameter for fire protection services will be 4 inches. A customer who has a private fire protection service connection less than the minimum 4 inches is exempt from the minimum diameter size of 4 inches if the installation has been approved by the local fire department. The maximum diameter will not be larger than the diameter of the water main to which the service is connected.
3. If a main of adequate size to serve a private fire protection system in addition to all other normal service does not exist adjacent to the premises to be served, then a new main from the nearest existing main of adequate capacity will be installed by the utility and the cost paid by the applicant. Such costs shall not be subject to refund. The main where located in the public right-of-way or utility easement will be the sole property of the utility.

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Schedule No. 2AL LIMITED ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate service only to the Sun Club furnished on an annual basis.

TERRITORY

Agate Bay and the vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

Recreation Private Club use, five services plus one swimming pool, payable in advance on or before January 1 of each year	\$ 2,160.74	(I)
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SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum metered charge for the same period shall be made on or about that same day.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF

END OF APPENDIX B

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AGATE BAY WATER COMPANY ADVICE LETTER 41 SERVICE LIST

North Tahoe Public Utilities District
P.O. Box 139
Tahoe Vista, CA 96148

Fulton Water Company
P.O. Box 1709
Carnelian Bay, CA 96140